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FISCAL IMPACT STATEMENT

LS 6914 | **NOTE PREPARED:** Feb 18, 2013
BILL NUMBER: HB 1568 | **BILL AMENDED:** Feb 14, 2013

SUBJECT: Real Property Subject to Tax Sale.

FIRST AUTHOR: Rep. Moed | **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** Local
DEDICATED
FEDERAL

Summary of Legislation: (Amended) The bill has the following provisions:

Vacant Parcels: In the statute concerning the sale of real property for which taxes or special assessments are delinquent, the bill makes the following changes for purposes of the section that allows a county executive that holds a certificate of sale for a vacant parcel to sell the parcel to a contiguous residential property owner:

(1) It provides that the certificate of sale will be sold to the successful applicant for $1, plus the amount of certain costs incurred by the county in the sale. (Under current law, the sale price does include costs incurred by the county.)
(2) It provides that for purposes of the section, a "vacant parcel" includes an improved parcel. (Current law provides that a "vacant parcel" includes only an unimproved parcel.)
(3) It specifies that the county executive may offer for sale the certificate of sale for a vacant parcel. (Current law refers to the sale of the vacant parcel itself.)

Urban Homesteading Program: The bill establishes an alternative urban homesteading program that provides for the following:

(1) That an individual is qualified to receive real property offered under the program if the individual applies for and receives, within a period specified by the local agency administering the program, a rehabilitation loan eligible for insurance under section 203(k) of the National Housing Act.
(2) That the conveyance of a dwelling to a qualified individual under the program shall be made for a fee of $1, plus certain costs incurred by the county in obtaining the property.

(3) That before the vesting of a fee simple title in a qualified purchaser under the program, any material failure by the purchaser to carry out the agreement required under the program nullifies the agreement and all right, title, and interest in the property reverts to the agency administering the program.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised): *Vacant Parcels:* Under the bill, there are two types of vacant parcels, those without a structure (unimproved) and those with a structure (improved). This provision increases the price charged for vacant properties from $1 to $1 plus the greater of $25 or postage and publication cost, and any other actual costs incurred by the county that are directly attributable to the tax sale (e.g., advertising costs, title search expenses, uniform commercial code expenses, attorney's fees, etc). As a result, the revenue gained from the sale of vacant lots under this bill would increase.

On the other hand, the parcel resulting from the combination of a vacant parcel with its eligible contiguous neighbor would qualify for property tax exemption for up to five years as long as the owner does not transfer the title to another party. A parcel that is combined with an unimproved vacant structure already qualifies for the exemption under current law. Under this bill, a parcel that is combined with an improved vacant structure would also qualify for the exemption. The following are the potential impacts:

(1) First-Year Impact: If the exemption occurs before assessed values (AVs) are certified and tax rates are set, and assuming that there is no impact from property tax caps, local revenues would not be affected, although tax rates may have to be increased to cover the potential shortfall caused by the reduction in AV.

If, however, AVs have been certified and tax rates are set for the calendar year, the reduction in AV would result in a reduction of property tax revenues for those local taxing units and school corporation in the taxing district where the property in question is located. To cover any potential loss, county auditors may reduce the certified AV by the amount needed (up to 2% of total AV) to absorb the effects expected to result from the reduction in AV.

(2) Year 2 to Year 5: The exemption over the next four years would be equivalent to a tax deduction during this period. This reduction in the tax base would result in a tax shift to all other property in the form of an increased tax rate. The amount of the tax shift and the size of the increase in the tax rate is indeterminable at this time.

(3) After Year 5: At the end of five years, the parcel would be added to the tax roll. The AV of the formerly exempted combined parcel would be added to the tax base thereby reducing tax rates and possibly circuit breaker credits, and increasing local revenue and the revenue for cumulative funds.

(4) Circuit Breaker Impact: The impact during the five-year exemption period may be exacerbated by the circuit breaker property tax caps. The increase in the tax rate makes it likely that the property taxes of relatively more taxpayers may be above the applicable tax cap. This would potentially increase the amount of

circuit breaker credits. As a result, total local revenues would probably decrease. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

After the exemption ends, the opposite may take place. With a formerly exempt combined parcel added to the tax roll and its AV to the tax base, the increase in AV may result in a lowering of tax rates. As a result, the property taxes of relatively fewer taxpayers may be above the applicable tax cap, potentially reducing the amount of circuit breaker credits. As a result, total local revenues would probably increase.

(5) Effect on Local Homestead Credits: A number of counties currently provide local homestead credits. Some homestead credits are paid with proceeds from a combination of County Option Income Taxes (COIT) and County Economic Development Income Taxes (CEDIT). For the first five years the parcel is combined under this proposal, local homestead credits could decrease; after year five, local homestead credits could increase.

COIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits. Forty-one counties currently provide CEDIT-funded homestead credits, and 10 counties provide COIT-funded homestead credits.

Urban Homesteading Program: This program under current law and the alternative program under this proposal are both geared to rehabilitating vacant/abandoned properties and properties with delinquent taxes. Furthermore, under this provision, both programs may be administered by the same agency. However, under this provision, an individual may find it easier to obtain financing than under current law, thereby making this option more attractive. On the other hand, the cost of obtaining the property under this proposal is relatively higher ($1 plus attorney's fees and tax sale fees, etc., versus $1 under current law).

As a result, it is expected the number of properties rehabilitated under this bill would increase. This, in turn, would permit a county to gain additional revenues once the property has been fully rehabilitated and returned to the tax rolls. Initially, the bill permits an individual to acquire properties for a minimal sum ($1 plus attorney's fees and tax sale fees, etc.) without any payment of taxes or penalties. Theoretically, this could be considered a loss of potential revenue to the county. However, the reality is that the county was unable to previously dispose of the properties at a tax sale and they were not redeemed. Additionally, the county has to maintain the properties adding to its expenditures.

As a result, if this provision results in property being returned to the tax rolls, this would ultimately lead to an increase in property tax revenues and a possible decrease in tax rates and circuit breaker credits. The total net increase in local revenue is indeterminable at this time and would depend on the number of properties returned to the tax rolls and the property tax payments they generate.

Additional Information:

Vacant Parcels: This provision makes two changes to current law. It changes the concept of a vacant parcel; and it increases the price paid for such a parcel.

Under current law a vacant parcel is defined as:

(1) The parcel has not been sold at a tax sale and, as a result, the lien has been transferred to the county executive.

(2) The parcel is unimproved.

(3) The construction of a structure intended for residential use is permitted.

(4) The parcel is contiguous to one or more parcels on which there is a homestead eligible for the standard deduction (owner-occupied).

Under this bill, the concept of a vacant parcel has been broadened to include parcels on which there is a structure as long as the parcel is on the list of vacant or abandoned properties, or not occupied by a tenant or a person having a substantial property interest of public record in the parcel. The combination of this type of parcel with its contiguous neighbor would now be eligible for a property tax exemption for five years.

Urban Homesteading Program: In general, this proposal resembles current law in many ways, but there are a few differences. Both programs are designed to rehabilitate vacant and/or abandoned property. Both require that the person applying for the property stay in the property for three years and adhere to the rules and regulations prescribed by the director of the agency overseeing the program. The major differences are the following.

(1) This proposal covers only individuals. It does not include community organizations as current law does.

(2) The applicant in question has to apply for and receive a rehabilitation loan eligible for insurance under Section 203(k) of the National Housing Act 9 (see *Background Information*); the current statute does not stipulate how the individual or community organization would obtain the necessary financing. It states that the individual or organization must have adequate financing.

(3) This provision also increases the price paid for the property from $1 to $1 plus the greater of $25 or postage and publication cost and any other actual costs incurred by the county that are directly attributable to the tax sale (e.g., advertising costs, title search expenses, uniform commercial code expenses, attorney's fees).

Under current law, the fiscal body of a taxing unit (except a township) may by ordinance designate an agency or quasi-public corporation, or establish a new agency, to administer an urban homesteading program under which family dwellings for one to four families may be conveyed to individuals or families, who must occupy and rehabilitate the dwellings, and community organizations that must rehabilitate the dwellings and offer them for sale.

The agency may acquire real property in the name of the taxing unit in several different ways. Using the tax sale list provided by the auditor, the agency may acquire the deed for real property purchased at tax sale 120 days after the date of sale, or acquire the deed for real property for which the holder of the certificate of sale has failed to request that the county auditor execute and deliver a deed. The agency may also acquire the property by purchase or gift.

After acquiring the property, the agency shall fully inform the residents of each taxing unit in which the dwellings are located of the existence, nature, and location of the dwellings; the qualifications required for participation in the homesteading program; and the terms and conditions on which the dwellings may be conveyed to qualified persons.

A person or community organization may apply for the program by completing a bid application. To be eligible an individual must be at least 18 years of age, and possess the financial resources to support a loan and the necessary skills to rehabilitate the property. Additionally the individual, including the individual's immediate family, should not have previously participated in the program. Approved applicants may apply for each dwelling in which they are interested. A drawing shall be held to determine those applicants who will be awarded the dwellings. The limit is one dwelling per family. However, each approved community organization may receive as many dwellings as the agency considers proper.

The successful applicant has to pay a fee of at least $1 and agree to following minimum conditions: the applicant must reside in the dwelling as the person's principal place of residence for a period of at least three years; the applicant must bring the residence up to a minimum code standard, including building, plumbing, electrical, and fire code standards, within 12 months after possession. The applicant must also carry fire and liability insurance on the dwelling at all times and must comply with any additional terms, conditions, and requirements that the agency may impose. These may include the requirement that the dwelling be rehabilitated to minimum building code standards before possession.

The real property may be conveyed to successful applicants by a conditional sales contract, with the title to remain in the agency for a period of at least one year. When, after the purchase, a person has resided in the dwelling for the required three-year period, brought the property into compliance with the required code standards, and otherwise complied with the terms of the person's agreement, the agency shall convey to the person a fee simple title to the property.

A property for which no one applies in two successive drawings may be sold at public auction to the highest bidder. The proceeds of the sale of real property shall be applied to the cost of the sale, including advertising and appraisal. If any proceeds remain after payment of the costs, the proceeds shall be applied to the payment of taxes. If any proceeds remain after payment of the taxes, the proceeds shall be deposited in the county general fund.

Background Information: *203(k) Rehab Mortgage Insurance:* A rehabilitation loan is defined as a loan or advance of credit for the purpose of financing the rehabilitation of an existing one-to-four unit structure which will be used primarily for residential purposes. Section 203(k) insurance enables home buyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage, or to finance the rehabilitation of their existing home. All persons who can make the monthly mortgage payments are eligible to apply. Cooperative units are not eligible

When buying a house that needs repair or modernization, homebuyers usually have to follow a complicated and costly process. The interim acquisition and improvement loans often have relatively high interest rates, short repayment terms, and a balloon payment. However, Section 203(k) allows a single, long-term, fixed or adjustable rate loan that covers both the acquisition and rehabilitation of a property. They also protect the lender by allowing them to have the loan insured even before the condition and value of the property may offer adequate security.

Section 203(k) insures mortgages covering the purchase or refinancing and rehabilitation of a home that is at least a year old. A portion of the loan proceeds is used to pay the seller, or, if refinancing, to pay off the existing mortgage, and the remaining funds are placed in an escrow account and released as rehabilitation is completed. The cost of the rehabilitation must be at least $5,000, but the total value of the property must still fall with the Federal Housing Administration mortgage limit for the area.

Section 203(k) insured loans can finance the rehabilitation of the residential portion of a property that also has nonresidential uses; they can also cover the conversion of a property of any size to one to four unit structure. The types of improvements that borrowers may make using Section 203(k) financing include structural alterations and reconstruction, modernization, and improvements to the home's function, elimination of health and safety hazards; and adding or replacing floors and/or floor treatments.

State Agencies Affected:

Local Agencies Affected: Local taxing units.

Information Sources: 24 CFR 203.50; 24 CFR 203.440: Code of Federal Regulations, Title 24:Housing and Urban Development, Single Family Mortgage Insurance.

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